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SUBJECT: KAM AIR OWNER CITES KIDNAPPINGS, TAX BURDEN AS
OBSTACLES TO BUSINESS IN AFGHANISTAN

REF: KABUL 496

Classified By: Economic Counselor Tom Engle for Reasons 1.4 (B) and (D)

11. (SBU) SUMMARY: In an October 22 meeting with Econoff, the president of Kam Air, Afghanistan's most successful private airline, Mr. Zamarai Kamgar lamented the worsening security climate in Kabul for businessmen, noting the increase in kidnappings of close relatives of high-profile figures. Kamgar claims the kidnappings are at the hands of "mafias" led by former Mujahideen commanders and Parliament members in northern Kabul who operate with the complicity of high-level government leaders. Kamgar believes these kidnapping networks seek money, not political retribution, and, now routinely ask for more than 5 million USD in ransom money for each kidnapping, a marked increase in the last year. Mr. Kamgar also complained that the Government of the Republic of Afghanistan (GIROA) burdens private Afghan businesses with unfair taxation policies. He was critical of the government's protection of the government-owned Ariana Afghan Airlines, and was not optimistic that the government would privatize Ariana before elections next year. He noted that given the high cost of fuel and his tax burden, Kam Air may not be able to continue operating. Kamgar, whose refusal to pay taxes has become a flashpoint of Afghanistan's tensions with the International Monetary Fund, urged the USG to encourage the Ministry of Finance to correct what he claims to be unfair tax regimes. Kamgar has legitimate concerns about Afghanistan's business and investment climate. His continued defiance of tax law probably undermines his message. END SUMMARY

Worsening Security, Kidnappings Threaten Business Leaders

12. (C) In an October 22 meeting with Econoff, the president of Kam Air, Afghanistan's most successful private airline, Mr. Zamarai Kamgar lamented the worsening security climate in Kabul for businessmen, noting the increase in kidnappings of close relatives of high-profile figures. Kamgar said kidnappings now occur on a weekly basis and that he travels through the city with a heavily armed security detail and motorcade. Kamgar claims the kidnappings are at the hands of "mafias" led by former Mujahideen commanders and Parliament members in northern Kabul. Kamgar contends that former Minister of Interior Zarar Ahmad Moqbel allowed the kidnappers to operate with impunity and either knew the assailants or profited from their activities or both. Kamgar says these kidnapping networks seek money, not political retribution, and they now routinely ask for more than 5 million USD in ransom, up from 1 to 1.5 million USD less than a year ago. Kamgar was disturbed that recent abductees

included a relative of the late King and the brother-in-law of the Minister of Commerce and Industry as well as a family member of one of his own employees. Kamgar said that the dismissal of Zarar as Minister of Interior in October was long overdue. He expects that new Interior Minister Mohammad Hanif Atmar's tenure should have a positive impact on the security of business leaders and their families.

Subsidization of Ariana Undermines Competitiveness of Private Air Carriers

13. (SBU) Kamgar said the GIROA's de facto subsidization of Ariana, particularly the government's imposition of Ariana's airport ground services on private carriers, undermines the competitiveness of private domestic air carriers. Kamgar said he has invested 2 million USD into ground services equipment. However, Kam Air must pay the government 200,000 USD per month for ground services and baggage handling, including a 1,500 USD per use fee to use Ariana's older, poorly maintained stairways. Kamgar fears his equipment is losing value sitting in storage and he continues to pay his 150 ground services employees. He added that using Ariana's poorer quality services creates delays that burden both the air carriers and passengers. Kamgar said that he has heard the government will request bids for airport services; however, he believes President Karzai will favor a foreign company over a domestic one and Kamgar Ltd. will lose its 2 million USD investment. Kamgar said that in view of Ariana's 1,700 employees and the upcoming elections in September 2009, the government will not take serious steps to improve Ariana's services or privatize the insolvent carrier.

Continued Disputes Over Taxation

14. (SBU) Kamgar told Econoff that Kam Air has paid all its back taxes and is paying current taxes. However, he criticized the government's imposition of a 10% sales tax on domestic private carriers. He said private carriers must increase their ticket prices by 10% in order to recoup the fees, making domestic carriers less competitive than foreign carriers for regional flights to New Delhi, Islamabad, Istanbul, and Tehran in particular. Additionally, Kamgar said, the government imposes a 20% income tax on domestic carriers at the end of each year. Kamgar argues that if the government eliminated the sales tax, domestic carriers' profits would increase since they could compete with the foreign carriers for Afghan passengers within the region, and the government's tax revenue would be higher with just the income tax than with both the income and the sales taxes. Kamgar said he would favor elimination of the sales tax altogether or a reduction to 2% that is applied to both foreign and domestic carriers. Kamgar said if the high costs of fuel, partly owing to the government's taxes on fuel, and the government's "unfair" tax regimes continue, Kam Air may not be able to continue operating. Kamgar asked the USG to support the private sector by urging the Ministry of Finance (MOF) to correct its "unfair" tax policies.

15. (SBU) COMMENT: Kamgar's frustration and fear over the effect of the security situation on the business and investment climate were palpable. Kamgar has a legitimate grievance against the government about the de facto subsidization of Ariana and forcing private airlines to pay Ariana for services they would rather provide themselves. While his charge that the government unfairly burdens private domestic business has a familiar ring, in Kamgar's case, it needs to be taken with a grain of salt. Kamgar has been one of the most visible examples of the kind of political interference employed by from wealthy business leaders in order to avoid paying taxes that impede Afghanistan from meeting the revenue targets set by the International Monetary Fund. Kamgar reportedly uses his connections in Karzai's office to prevent MOF from collecting his outstanding taxes and landing and parking fees. Despite his claims to Econoff

that he has paid all of his taxes, Kam Air remains the only airline that is not current on its tax payment. On November 17, the MOF told Treasury Attache that Kam Air owes the MOF roughly 800,000 USD. MOF has been trying to enforce Kamgar's compliance by working with the Ministry of Transport and Civil Aviation (MoTCA) to not renew Kam Air's operating certificate, but is not receiving full cooperation from MoTCA. MOF is trying to garnish Kam Air's commercial bank accounts, but, for reasons that are unclear, banks are not cooperating either.

¶6. (SBU) COMMENT CONT'D: The 10% Business Receipts Tax (BRT or "sales tax") is not new or specific to airlines, but applies to all large companies in Afghanistan. For much of 2007, Kam Air charged the 10% BRT on tickets but did not turn over the money to the government. Kamgar's complaints that these taxes are the main source of his inability to compete with established foreign carriers strain credibility, particularly since these foreign carriers likely pay similar, maybe even higher, taxes in their home countries. Kamgar is one of the top four oligarchs in Afghanistan; however, his continued defiance of tax law undermines the legitimate concerns he raises about Afghanistan's business and investment climate. END COMMENT

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